

Exhibits B-1 and B-2

Exemptions and Deferrals of Property Tax Increment

Redevelopment law, pursuant to California Health and Safety Code Sections 33334.2 and 33334.6, specifies very restrictive conditions that only enable a few agencies to exempt and/or defer from depositing some or all of the required minimum set-aside of allocated project area property tax increment. A deferral constitutes a debt that must be repaid to the Low-Mod Fund.

Exemptions - Section 33334.2(a)(2)(C)

Before an agency can exempt any amount of property tax increment from deposit to the Low-Mod Fund, the jurisdiction (city or county) of the agency must have an adopted housing element that the Department has determined complies with applicable provisions of State housing element law. Once a jurisdiction's housing element is found in compliance, the law requires the agency to make one of the following three findings before exempting any amount of property tax increment from deposit:

- No need exists in the community to increase, improve or preserve the supply of low- and moderate-income housing.
- Less than the required minimum set-aside is sufficient to meet the community's need.
- The community is making a substantial effort to meet its affordable housing need that is equivalent in impact to the funds exempted and the exemption is needed to meet specific existing contractual obligations incurred before May 1991.

Exhibit B-1 shows four agencies (Industry, Paramount, Brea, and Needles) exempted property tax increment from six project areas totaling \$14,752,132. Exemptions this year reflect a slight decrease from the \$14,904,266 exempted in the previous year. The Industry Urban Development Agency reported exempting \$14,484,874 this year, which accounts for 98% of total exemptions. Industry Urban Development Agency is, per legislation, allowed to transfer the 20% set aside to the Housing Authority for the County of Los Angeles to be used for affordable housing outside the City of Industry. The City of Needles is the only jurisdiction that did not meet the requirement of having an adopted housing element in compliance before taking the exemption. No agencies claimed an exemption on the basis of not having a need to improve and/or maintain the jurisdiction's supply of affordable housing.

Deferrals - Section 33334.6

Some agencies can defer all or a portion of the minimum set-aside of allocated property tax increment from deposit to the Low-Mod Fund, if it is needed to meet debt obligations incurred from project areas approved before 1986.

Exhibits B-1 and B-2 (continued)

Any property tax increment deferred from deposit to the Low-Mod Fund must be repaid. Agencies are required to adopt a plan to repay deferrals before the termination date of the project area.

Exhibit B-2, shows seven agencies reported deferring a total of \$2,826,085 from deposit to the Low-Mod Fund. This year's deferrals reflect a decrease compared to last year's deferrals of \$3,818,214. All seven agencies reporting deferrals this year also deferred property tax increment in FY 2003/2004

Nineteen agencies reported repaying \$4,536,719 of prior year deferrals whereas last year 17 agencies reported deferral repayments of \$1,809,889. At the end of FY 2004-2005 the outstanding deferral balance owed the Low-Mod Fund represents \$173,718,703.